

## Message Text

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ACTION EA-12

INFO OCT-01 ARA-14 EUR-12 ISO-00 EB-08 COME-00 STR-07  
INT-05 IO-14 TRSE-00 OMB-01 GSA-02 PM-05 NSC-05  
SP-02 SS-15 CIAE-00 DODE-00 INR-10 NSAE-00 PA-02  
ICA-20 /135 W

-----081493 060641Z /11

P 060515Z JUN 78

FM AMEMBASSY KUALA LUMPUR  
TO SECSTATE WASHDC PRIORITY 5020  
INFO AMEMBASSY BANGKOK PRIORITY  
AMEMBASSY LA PAZ PRIORITY  
AMEMBASSY LONDON PRIORITY

UNCLAS SECTION 1 OF 2 KUALA LUMPUR 5265

E. O. 11652: N/A

TAGS: EMIN, MY

SUBJ: MALAYSIA'S POSITION ON TIN PRICE AT THE EPRP

1. ON JUNE 5, PAUL LEONG, MALAYSIA'S DEPUTY MINISTER OF PRIMARY INDUSTRIES, RELEASED TO THE PRESS THE RESULTS OF A STUDY THAT HIS MINISTRY HAS PREPARED ON THE TIN PRODUCTION COSTS OF GRAVEL PUMP OPERATORS WHO CONTINUE TO PRODUCE THE MAJORITY OF MALAYSIA'S TIN. ACCORDING TO LEONG, A BASIC CONCLUSION OF THE STUDY IS THAT A MINIMUM FLOOR PRICE OF M\$1,600 PER PICUL IS NECESSARY FOR SOME NEW INVESTMENTS BECAUSE THE BASIC AVERAGE COST OF PRODUCTION FOR GRAVEL PUMP OPERATORS IS PRESENTLY M\$1,462 PER PICUL. THIS INFORMATION WAS NOT INCLUDED IN LEONG'S OPENING STATEMENT (GIVEN BELOW) BUT WAS INCLUDED IN HIS REMARKS AT THE PRESS CONFERENCE. LEONG INDICATED TO THE PRESS, HOWEVER, THAT HE WAS NOT ADVOCATING A M\$1,600 FLOOR PRICE BUT ONLY WAS INDICATING THE NECESSITY OF RAISING THE FLOOR AND CEILING TO M\$1,400 AND M\$1,700 RESPECTIVELY. WE HAVE  
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OBTAINED A COPY OF THE RESULTS OF THIS STUDY, GIVEN IN GRAPHIC FORM, AND WILL PROVIDE A COPY TO LENAHAH ON HIS ARRIVAL. CLEARLY, LEONG'S STATEMENT REPRESENTS THE LATEST THINKING BY THE GOM GOING INTO THE EPRP MEETINGS.

2. TEXT OF STATEMENT IS AS FOLLOWS: " THE

BUFFER STOCK FLOOR PRICE IS NORMALLY LOOKED UPON BY THE INDUSTRY AS THE GUARANTEED MINIMUM PRICE OF TIN. WHEN THE TIN MARKET PRICE FALLS TO NEAR THE FLOOR PRICE LEVEL, THE MAIN TIN PRICE DEFENCE MECHANISMS OF THE INTERNATIONAL TIN COUNCIL ARE BROUGHT INTO PLAY: PURCHASING OF PHYSICAL TIN BY THE BUFFER STOCK AND IMPOSITION OF TIN EXPORT CONTROL IN PRODUCING MEMBER COUNTRIES. IT IS ALSO GENERALLY ACCEPTED THAT THE BUFFER STOCK FLOOR PRICE MUST BE AT A LEVEL HIGH ENOUGH TO ASSURE TIN PRODUCERS OF A REASONABLE RATE OF RETURN ON THEIR INVESTMENTS IN THE TIN MINING INDUSTRY. THIS IS A SIMPLE REQUIREMENT OF ECONOMICS: IF THE GUARANTEED MINIMUM TIN PRICE IS TOO LOW, INVESTORS WILL NOT RISK THEIR FUNDS IN THE INDUSTRY AND SEVERE SHORTAGE OF TIN WILL RESULT. PRODUCING MEMBER COUNTRIES OF THE INTERNATIONAL TIN COUNCIL HAVE, FROM 1972 ONWARDS, BEEN SUPPLYING THE COUNCIL WITH STATISTICS ON THEIR RESPECTIVE COSTS OF TIN PRODUCTION TO ENABLE THE COUNCIL TO FIX THE FLOOR PRICE AT SOME LEVEL WHICH, IN VIEW OF WHAT HAS BEEN MENTIONED, MUST BE HIGHER THAN THE COST OF PRODUCTION OF TIN. THE MEAN COST OF PRODUCTION OF TIN FROM MALAYSIA, GRAVEL PUMP MINES IS AS UNCLASSIFIED

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GOOD A BAROMETER AS ANY OF THE EXPENSES INCURRED IN PRODUCING ONE PIKUL OF TIN METAL FROM THE GROUND BECAUSE:-  
(A) MALAYSIAN GRAVEL PUMP COSTS TEND TO FALL AROUND THE MEDIAN VALUE OF THE COSTS OF PRODUCTION INCURRED BY VARIOUS MINING METHODS IN THE VARIOUS PRODUCING MEMBER COUNTRIES;  
(B) MALAYSIAN GRAVEL PUMP MINES ACCOUNT FOR ABOUT 20 PERCENT OF WORLD TIN PRODUCTION; AND

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ICA-20 /135 W

-----081567 060641Z /11

P 060515Z JUN 78

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 5021

INFO AMEMBASSY BANGKOK PRIORITY

AMEMBASSY LA PAZ PRIORITY

AMEMBASSY LONDON PRIORITY

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(C) BY VIRTUE OF ITS EXTREME SENSITIVITY OF  
TIN PRICE CHANGES THE GRAVEL PUMP MINING  
METHOD IS BEST SUITED TOWARDS MAINTAINING  
THE EQUILIBRIUM BETWEEN SUPPLY AND DEMAND.  
AS A RESULT, IN THE PAST, THE COUNCIL HAS RELIED  
HEAVILY ON THE MALAYSIAN GRAVEL PUMP COSTS LEVELS  
IN DETERMINING THE FLOOR PRICE LEVELS.

THE ACCOMPANYING GRAPH AND TABLE (TO BE GIVEN TO LENAHAH) SHOW  
THAT THE FLOOR PRICE LEVELS FROM 1972 TO 1976 HAVE  
REFLECTED MALAYSIAN GRAVEL PUMP COST LEVELS  
REASONABLY FAITHFULLY THOUGH THE FOLLOWING  
OBSERVATIONS ARE PERTINENT:-

(A) THERE HAS BEEN A LAG OF A FEW MONTHS  
FROM THE ESCALATION OF COSTS TO THE UPWARD  
REVISION OF THE FLOOR PRICE, THIS BEING  
INEVITABLY THE CASE WHEN SUCH UPWARD  
REVISIONS ARE BASED ON HISTORICAL DATA  
ON COSTS WHICH CANNOT BE AVAILABLE UNTIL  
AT LEAST FOUR MONTHS AFTER THE PERIOD  
FOR WHICH THEY ARE VALID EXPIRES;

(B) AS A RESULT OF THIS LAG, THE SEVERE  
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INFLATIONARY PRESSURES OF 1974 HAVE  
PUSHED THESE COSTS TO A LEVEL SIGNIFICANTLY  
HIGHER THAN THE FLOOR PRICE LEVELS FOR THAT  
YEAR; AND

(C) AS A FURTHER RESULT OF THIS LAG, THE  
FLOOR PRICE LEVELS HAVE TENDED TO BE SOMEWHAT  
LOWER THAN THE COST LEVELS PREVAILING AT THE  
SAME TIME BUT GENERALLY HIGHER THAN THE COSTS  
LEVELS KNOWN AT THAT TIME.

AFTER 1976, HOWEVER, THE FLOOR PRICE LEVELS HAVE  
BEEN SIGNIFICANTLY AND CONSISTENTLY LOWER THAN

COST LEVELS. THE CONTINUING NEED TO WORK LOWERGRADE RESERVES COUPLED WITH INFLATIONARY PRESSURES IN 1977 HAVE CONTRIBUTED TO CONSIDERABLE INCREASES IN THE COSTS OF PRODUCTION, BUT, IN NOTICEABLE CONTRAST TO THE TREND OBSERVED FOR 1974, THE FLOOR PRICE LEVEL REMAINED A LEVEL MUCH LOWER THAN COST LEVELS AND CONTINUES TO DO SO WELL INTO 1978 WHEREAS THE GAP IN 1974 BETWEEN COST LEVELS AND THE FLOOR PRICE WAS QUICKLY REDUCED.

THE YEAR 1976 CAN BE LOOKED UPON AS A SIGNIFICANT WATERSHED NOT ONLY IN THE BEHAVIOR OF THE FLOOR PRICE VIS-A-VIS THE COSTS OF PRODUCTION INCURRED BY GRAVEL PUMP MINES IN MALAYSIA BUT ALSO IN THE STRUCTURE OF THE INTERNATIONAL TIN COUNCIL ITSELF. THE FOURTH INTERNATIONAL TIN AGREEMENT EXPIRED IN MID 1976 AND WAS SUCCEEDED BY THE FIFTH AGREEMENT. A SIGNIFICANT FEATURE OF THE FIFTH AGREEMENT IS THAT AN ENLARGED COMMUNITY OF TIN CONSUMING COUNTRIES HAVE BECOME SIGNATORIES TO THAT AGREEMENT. THIS ENLARGED COMMUNITY, WITH NOTABLE EXCEPTIONS, HAVE BEEN FLEXING THEIR

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MUSCLES AT THE COUNCIL THEREBY OBSTRUCTING VIRTUALLY ANY MOVE TO HAVE THE FLOOR PRICE REVISED UPWARDS TO MORE CLOSELY REFLECT THE COSTS OF PRODUCTION. THIS IS A VERY DISTURBING DEVELOPMENT INDEED BECAUSE THE EXISTING WIDE DISPARITY BETWEEN COST LEVELS AND THE FLOOR PRICE WILL NULLIFY THE PURPOSE OF THE FLOOR PRICE ITSELF AND ANY ATTEMPT TO FIND A BALANCE BETWEEN SUPPLY AND DEMAND."

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TIN, FOREIGN POLICY POSITION, PRICES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 06 jun 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 jan 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978KUALA05265  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780235-0648  
**Format:** TEL  
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**Image Path:**  
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**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
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**Review Date:** 29 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2479078  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** MALAYSIA'S POSITION ON TIN PRICE AT THE EPRP  
**TAGS:** EMIN, MY  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/d0126e91-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014